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UNCLAS LILONGWE 000496

SIPDIS

SENSITIVE

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STATE FOR EB/IFD/ODF LINDA SPECHT
TREASURY FOR INTERNATIONAL AFFAIRS/AFRICA/BEN CUSHMAN
JOHANNESBURG FOR FCS
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SUBJECT: MALAWI REOPENS FINANCE BANK

REF: LILONGWE 448

1. (SBU) SUMMARY: Finance Bank of Malawi was allowed to reopen under Reserve Bank curatorship. The bank is experiencing a mild run, as Reserve Bank imposed restrictions curb withdrawals for the moment. With Finance Bank's shady customer base, liquidation seems a more likely outcome than a recovery or buyout. While the GOM intervention was clumsy at best, it does at least show some determination to react to corrupt and illegal practices. End summary.

2. (U) At the beginning of this week, the GOM negotiated a deal to allow Finance Bank of Malawi to reopen after being closed for over two weeks for illegally externalizing foreign currency (reftel). The deal allows the Reserve Bank of Malawi (RBM) to place a director within the bank, plus staff for information technology and accounting, as a condition of their opening. The bank will also operate, at least for the moment, without a foreign exchange license. Meanwhile, a forensic audit is being conducted by the fiscal police, Anti-Corruption Bureau, and RBM.

3. (SBU) Members of the financial services industry here, as well as several senior officials at RBM, have told us that RBM went too far in revoking the license and closing Finance Bank with no intermediate measures beforehand. This is said to be the result of political-level involvement with the case. For the moment, the refusal of other banks to honor Finance Bank's checks is preventing a severe run. (RBM has imposed a "no value date" requirement on other banks' handling of Finance Bank checks, which prevents other banks from assuming clearance three days after deposit. Instead, banks must await confirmation of clearance.) However, depositors are said to be making large cash withdrawals. The customer flight is strong enough--and Finance Bank's customer base is suspect enough--that other banks have reported that they are tightening their "Know Your Customer" rules to avoid inheriting Finance Bank's shady customers.

4. (SBU) Beyond the short term, though, no one holds out much hope for the bank's future. Banking sources expect a considerable run and report that the bank is actively searching for a buyer. At this point, a buyout looks unlikely, since buying Finance Bank could damage established brands and contaminate a good customer base. The reasoning is that the customers most motivated to stay with Finance Bank through the next few months would be the worst. Liquidation appears to be the most likely outcome.

5. (SBU) COMMENT: Though the Finance Bank saga has not ended, it already offers a few lessons. First is the further demonstration of the administration's tendency toward hasty, ham-handed interventions, as has been the case with other issues as diverse as dealing with news media criticism, reforming government salaries, and ensuring food security. On the other hand, the country's political leadership is plainly capable of taking action, if perhaps overly drastic action, when it is plainly needed. Finally, it seems clear that the GOM is trying to draw a brighter line between legal and illegal activities in the financial world. In the net, this is a step forward that the previous government was unwilling to take.

GILMOUR